STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: SMALL VOLUME GAS TRANSPORTATION	DOCKET NOS. NOI-98-3 SVG-98-1 SVG-98-2 SVG-98-3 SVG-98-4 SVG-98-5

ORDER TERMINATING SMALL VOLUME GAS DOCKETS AND DISCUSSING TARIFF FILING REQUIREMENT

(Issued March 3, 2000)

On October 23, 1997, the Utilities Board (Board) adopted rules offering natural gas utilities the option of filing tariffs or specific plans for reducing existing barriers to the competitive market for small volume customers. All of the utilities chose to file plans. Those plans are identified as Docket Nos. SVG-98-1 through SVG-98-5. On December 18, 1998, the Board granted a motion filed by IES Utilities Inc. (IES) and Interstate Power Company (Interstate) requesting a workshop process. In response to the motion, the Board established an inquiry proceeding identified as Docket No. NOI-98-3. The purpose of the inquiry proceeding was for the Board's staff to conduct workshops to discuss issues apparent in the utilities' plans and attempt to reach consensus on the issues.

The workshops were held on January 26, 1999, February 16-17, 1999, March 2-3, 1999, March 10, 1999, and April 13, 1999. There were 22 participants in the workshop process. A list of participants is attached to this order. The participants included all of the public utilities providing natural gas in Iowa, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), an interstate pipeline company, and various associations, community agencies, and gas marketing companies. In addition, after the workshops were concluded, several participants filed written comments. Written comments were filed by the Iowa Joint Utility Management Program (I-Jump), IES and Interstate, Consumer Advocate, MidAmerican Energy Company (MidAmerican), Northern Natural Gas Company (Northern), Peoples Natural Company, Division of UtiliCorp United Inc. (Peoples), the Iowa Community Action Association (ICAA), Nicor Energy, LLC, and United Cities Gas Company (United Cities).

The participants in the workshop process were able to reach consensus on some issues raised. In general, the parties were able to agree on the concepts of the regulation of the delivery of gas service, the obligation to deliver gas, and the need for customer education. As to the issue of how to proceed, some of the parties supported a legislative approach to bringing competition to the small volume gas market. Those parties urged the Board to postpone any action until there is new legislation addressing the issues. Others stated the Board should not delay making changes to open the competitive market to small volume customers. Other participants proposed alternative approaches. For example, Peoples proposed giving residential customers the choice of several pricing options and providing commercial and industrial customers the opportunity to purchase gas from third-party suppliers. United Cities proposed a small volume customer aggregation program.

Most participants recognized the necessity for adequate protection for customers and protection against cross-subsidization between utilities and their affiliates.

Because the natural gas market has been open to large volume customers for many years, it appeared to be deceptively simple to make adjustments to the market to open it to small volume customers. However, the Board recognizes that there are other factors that make it more difficult to provide the same competitive options to small volume customers. The Board has reviewed the plans filed by each utility and all comments from the workshops. The Board recognizes the participants' great efforts to address all of the issues and related factors that arise when attempts are made to change the existing market structure. The participants have shared valuable experience and insights during the process.

The Board's staff has prepared an inquiry report. The inquiry report discusses the issues and options implementing transportation for small volume customers. A copy of the report is attached to this order. After reviewing the report and the parties' comments, the Board has determined that the utilities' filed plans do not provide a satisfactory means to open the natural gas market for small volume customers. For example, some of the utilities' plans do not proceed quickly enough and others proceed too quickly by having the regulated utility exit the merchant function. All of the plans will, therefore, be dismissed.

The Board recognizes that some of the issues raised in the workshop may need to be resolved legislatively. However, the Board believes it is possible to move this process forward at this time by requiring each utility to propose tariff changes that remove the primary barriers to providing a competitive option for small volume customers interested in transporting gas. The elements listed in 199 IAC 19.13(4)"e," will provide a general guideline for the points that must be addressed in the tariff. Because the plan approach has not proven effective, the Board on its own motion will waive 199 IAC 19.13(4)"f," which provides the option to file a plan rather than a tariff.

The Board is considering whether to reconvene the workshops for the purpose of developing a model for these new tariffs. However, the Board is cognizant that each utility has different characteristics and a model tariff may not work for each utility. Therefore, as an alternative, the Board is considering whether it would be more productive for the Board's staff, each utility, and any interested parties to reconvene for the purpose of designing each utility's proposed tariff on an individual basis. The Board seeks comment regarding the procedural steps for designing these initial tariffs. Therefore, interested persons may file comments 30 days from the date of this order.

The comments shall be made using the following procedure:

1. An original and one hard copy shall be filed with the executive secretary.

2. An electronic copy shall be sent to the inquiry manager's electronic mail (E-mail) address. In order to accommodate as many diverse computer systems as possible, all text must be included in the body of the electronic mail message, rather than by attachment. Any participant unable to provide an electronic copy by E-mail shall file ten additional hard copies with the Executive Secretary. In the alternative,

any participant unable to provide an E-mail copy may consult with the inquiry manager to find other possible ways of providing electronic copies.

IT IS THEREFORE ORDERED:

1. Docket Nos. SVG-98-1, SVG-98-2, SVG-98-3, SVG-98-4, and SVG-98-5 are terminated.

2. On or before 30 days from the date of this order, interested persons may file comments regarding proposals for procedural steps for designing small volume gas tariffs.

3. The Board waives 199 IAC19.13(4)“f” (2000).

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Diane Munns

DISSENT

I agree with the finding in this order that the plans filed by the utilities do not provide a satisfactory means to open the natural gas market for small volume customers. The plans have failed to achieve the Board's objectives in offering the plan alternative found in 199 IAC 19.13(4)"f." Therefore, I join in ordering clause 1, which terminates the five small volume gas dockets.

I also agree with the statement in the order that some of the issues raised in the workshop need to be resolved legislatively. However, I would take that statement farther. My dissent is premised on my belief that comprehensive legislation is a better way to open the small volume gas market to customer choice than the interim tariff modification approach adopted in this order. Many market development, customer education, and other competition-related problems will be mitigated if small volume gas legislation is coordinated with electric restructuring legislation, rather than allowing choice for small volume gas customers to begin under a statute not oriented to competition. Because of the massive nature of electric restructuring legislation, it may be necessary to complete that legislation in one session and to address small volume gas restructuring in a subsequent session.

Specifically, I dissent from the portions of the order requiring each utility to propose tariff changes that remove the primary barriers to providing a competitive option for small volume customers interested in transporting gas. I view the tariff requirement as an unsatisfactory short-term approach that allows small volume gas customer choice without the requisite consumer protections and education. The tariff approach, without the protections expected in legislation, is an invitation to highly selective marketing to only the most attractive small volume customers. Marketers are not likely to attempt to serve ordinary residential and small commercial customers.

In addition, the tariff filing option is unnecessary. The record in these proceedings does not show evidence of significant numbers of small volume customers who would benefit from modifying the tariffs. Also, the current I-Jump program is producing the type of information that can be gleaned from a pilot project interim approach prior to the passage of legislation fully opening the small volume gas market. I-Jump will continue without the tariffs required by this order and the Board will continue to benefit from any lessons learned through its marketing efforts to a select group of small volume gas customers.

In conclusion, these proceedings persuade me that attempting to open the small volume gas market to customer choice prior to the passage of comprehensive legislation will create problems that outweigh any benefits that may accrue to the few, if any, marketers and customers exercising choice under interim tariffs. I respectfully disagree with the approach chosen by a majority of the Board.

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

Dated at Des Moines, Iowa, this 3rd day of March, 2000.

REPORT OF THE BOARD INQUIRY INTO

SMALL VOLUME GAS TRANSPORTATION

DOCKET NO. NOI-98-3

Iowa Utilities Board

March 2000

REPORT OF THE BOARD INQUIRY INTO
SMALL VOLUME GAS TRANSPORTATION

DOCKET NO. NOI-98-3

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March 2000

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Introduction

On October 23, 1997, in Docket No. RMU-96-12, the Board adopted 199 IAC 19.13 (4)"e" and "f." The purpose of the rule making was to remove barriers to competition in the natural gas market for small volume customers in Iowa. These rules offered Iowa LDCs the option of filing tariffs or utility specific plans that would reduce existing barriers to small volume transportation service. Each of the utilities elected the plan filing option. The plan filing option allowed the utilities the flexibility to address the specifics of their particular system. In the fall of 1998 each of the utilities filed a proposed Small Volume Gas (SVG) Plan.

On November 4, 1998, IES Utilities Inc. and Interstate Power Company (Alliant) filed a Request for Establishment of Workshops (SVG-98-2 and SVG-98-3). Alliant indicated that the differences in the utility markets and circumstances need to be accommodated as each utility moves through a transition phase. However, Alliant also proposed that a single end-state is preferable to different end-states for the Iowa natural gas utilities. Alliant proposed a workshop process with a goal that participants align around a proposed set of rules concerning customer education, codes of conduct, and marketer certification that could be issued by the Board. Other issues IES offered as topics for workshops included: market roles, consumer protection, price setting, public benefits, implementation, and transition.

On November 5, 1998, staff and representatives from the utilities and the Consumer Advocate met to discuss customer education issues in the small volume natural gas process. At that meeting, the participants discussed Alliant's proposal for workshops and LDC representatives indicated they would file comments.

On December 18, 1998, the Board issued its Order Granting Request for Workshops in Docket Nos. SVG-98-2 and SVG-98-3. On December 28, 1998, the Board initiated a Notice of Inquiry, Docket Number NOI-98-3, to serve as a framework for the workshop process. Twenty-two parties expressed an interest in participating in the workshop process. The parties included the four Iowa LDCs, Consumer Advocate, two interstate pipelines, marketers, and other parties.

The following objective was developed for the workshop process:

> To develop consensus recommendations on each pertinent issue. Consensus should balance appropriate customer protections with fair marketer participant accessibility while maintaining system reliability. Implementation should result in choice of natural gas suppliers for all customers in Iowa.

Workshops were held on January 26, 1999, February 16-17, 1999, March 2-3, 1999, March 10, 1999, and April 13, 1999. As an end-product, the workshop participants constructed an issues matrix (the matrix can be downloaded from the agency's website at www.state.ia.us/iub) that summarizes areas of apparent agreement and disagreement in twenty-six categories. The matrix shows significant areas of agreement and disagreement among the participants. Although the participants did not achieve apparent agreement on many of the issues, the parties agreed that many of the issues should be resolved consistently on a statewide basis. Examples of such issues are penalties, customer education, and billing. Consistency would encourage a more efficient market with more participants, but different treatments were proposed.

On May 7, 1999, the Board issued its "Order Scheduling Filing" which set out a filing schedule for initial and reply comments concerning the issue of how the small volume gas project should proceed.

Below is a summary of the comments filed in Docket NOI-98-3. Although some parties included comments related to specific issues, this summary focuses on the comments that were related to process. A discussion of three separate approaches for proceeding with the Small Volume Gas project follows the summary of comments.

Summary of Comments From NOI-98-3

The Parties

Out of the total of 22 participants in the workshop process, each of the nine participants listed below filed initial comments in Docket No. NOI-98-3. The first three parties on the list also filed reply comments. The parties included:

1. MidAmerican Energy Company (MidAmerican)
2. IES Utilities and Interstate Power Company; collectively Alliant Energy (Alliant)
3. Consumer Advocate Division of the Department of Justice (Consumer Advocate)
4. Peoples Natural Gas Company (Peoples)
5. United Cities Gas Company (United Cities)
6. Nicor Energy, LLC, a partnership of Dynegy, Inc. and Nicor Inc. (Nicor), a natural gas marketer
7. Iowa Community Action Agency
8. Iowa Association of School Boards (IASB), the participants in the natural gas I-JUMP programs
9. Northern Natural Gas Company (NNG), Interstate pipeline company

Summary of Comments

MidAmerican Energy Company

MidAmerican supports legislative action, as opposed to administrative action to open all electric and gas utility markets at the same time. MidAmerican proposes a consensus process to develop uniform positions on unique gas issues to begin as early as this summer. Natural gas legislation should be introduced for consideration during the 2001 legislative session, with implementation of both electric and gas restructuring on May 1, 2002. MidAmerican prefers uniformity among all gas utilities, uniformity in gas and electric restructured services, and a common start-up date in order to develop the most effectively competitive market possible. This will minimize customer confusion and make customer education programs more effective.

Some issues raised in the workshops would be expeditiously resolved by legislation. For example, the "obligation to serve" issue could be handled in legislation or it could become the subject of a judicial appeal of a Board decision in a SVG plan proceeding. The legislative approach seems preferable as more timely. Any judicial appeal would probably not be finally resolved by the proposed legislative implementation date of May 1, 2002.

While not MidAmerican's preference, if the Board chooses an administrative direction, MidAmerican recommends one generic proceeding (possibly in the form of a rulemaking) which would result in uniform approaches for SVG implementation. If the filed plans are considered in an administrative proceeding, MidAmerican would amend its plan.

Alliant Energy (IES and Interstate)

Natural gas industry restructuring will be as complex as electric industry restructuring and a uniform, statewide solution is required. That solution begins with comprehensive legislation. In advocating this approach, Alliant does not intend to delay SVG customer choice. In fact, this approach will hasten SVG customer choice that truly provides benefits to the broadest group of customers possible. If any party challenges the Board's ultimate SVG result, the uncertainty and time required for judicial resolution will add years to the process with the possibility that the end result could be revisited by the Legislature. Alliant supports SVG customer choice and is interested in creating a competitive market that operates efficiently and effectively, not in one that is implemented as fast as possible. The legislative route will ensure maximum consistency across electric and natural gas service, as well as maximum consistency across gas distribution companies while minimizing uncertainty.

Alliant believes the sensible way to proceed is to allow the electric restructuring legislative process to reach its conclusion in order to ascertain the ultimate results on the key overlapping issues. Once this is accomplished, companion natural gas service legislation can easily be crafted and adopted into law. This approach will create the greatest opportunity for customers without exposing customers or other industry participants to unnecessary risks.

Consumer Advocate

Any Board determination altering what Consumer Advocate views as the local distribution companies' (LDCs') statutory supply obligation will likely result in judicial review proceedings. Consumer Advocate does not agree that SVG should be modeled on electric restructuring initiatives. Consumer Advocate also opposes going forward with the SVG plans filed by MidAmerican, IES, and Interstate. Implementation of the plans would almost certainly guarantee the proponents of those provisions an unregulated monopoly in the provision of natural gas supply. (In those SVG plans, the utility's affiliate becomes the default provider.) Before LDCs are relieved of their obligation to provide natural gas supply, there must be some determination that sufficient competitive alternatives are available. Because of these concerns and others, Consumer Advocate does not object to these parties' request not to go forward with the SVG plans prior to seeking legislation.

Consumer Advocate has advocated a "go slow" approach with implementation of SVG contingent upon a finding that there is a realistic opportunity for economic benefit for small volume customers and adequate protections against marketer abuses and cross-subsidization between the LDC and its affiliate. An appropriate transition period must recognize these factors. The utilities urge the Board to support the development of natural gas unbundling legislation. Consumer Advocate urges the Board to support and/or implement SVG transportation rules that impose adequate safeguards for the protection of small volume customers during any transition to competition.

Peoples Natural Gas Company, UtiliCorp United Inc.

Peoples believes the best approach would be some variation of giving residential customers the choice of several different pricing options (e.g., Traditional Sales Service, Fixed Price Option, and Guaranteed Weather Option) and providing commercial and industrial customers the opportunity to purchase gas from third-party suppliers. Implementation within less than one year is proposed for this approach. Peoples is concerned that there has been virtually no evidence provided in the workshop meetings or elsewhere that residential customers in Iowa are interested in purchasing gas from alternative suppliers at this time.

Peoples supports the formation of a gas legislation group to develop proposed gas legislation to resolve issues such as whether utilities should remain in the merchant function, designation of the default provider, and the appropriate level of separation for affiliates. A benefit to this approach would be to find common solutions to comparable issues. It will be more difficult to find savings for the customer if utilities are forced to develop different infrastructures, one for natural gas and a different one for electricity, to support customer choice.

United Cities Gas Company

United Cities supports the objective of making benefits of wholesale competition available to small volume customers. As an alternative to small volume transportation service, United Cities believes a small customer aggregation program will accomplish that objective. United Cities recommends the LDC be allowed to change its role from merchant to aggregator for small volume customers, and the LDC administer competitive supply bids. Based on preliminary studies, United Cities does not believe transportation service will be cost-effective for its Iowa customers, particularly if no other jurisdiction in which it or an affiliate company serves requires that such service be offered. United Cities believes it may be appropriate to consider options that will provide the same benefits to small volume customers as transportation service, but which can be implemented more quickly and with a greater likelihood of success.

United Cities cautions the Board that implementation of small volume transportation service will require resolution of a number of contentious issues and will likely be a lengthy process. United Cities points to the different positions of the parties with regard to the designation of the default provider. In SVG plans, MidAmerican and Alliant designate the non-regulated affiliate, while Peoples and United Cities keep the regulated utility as the default provider. This issue will significantly impact other issues such as supplier of last resort and the obligation to supply. Consumer Advocate has indicated that an approach wherein the LDC exits the merchant function is unacceptable and that Consumer Advocate will likely litigate this, as well as other issues. Resolution of this issue may even involve the need for legislation. United Cities submits that, in the face of uncertain benefits, the administrative undertaking envisioned to implement small volume transportation service (including a generic Iowa Utilities Board proceeding, possible legislation, and LDC specific proceedings) may simply not be worth the effort.

Nicor Energy, LLC

Nicor supports uniform timing of open access by all Iowa LDCs for the development of a competitive SVG market. It is unnecessary to delay SVG transportation until electric restructuring legislation is passed. A natural gas market can develop without a corresponding competitive, retail electric market.

Iowa Community Action Association

The goal of creating a uniform approach to SVG customer choice can only be realized through legislation. The absence of consistency between SVG plan filings will lead to customer confusion. If electric restructuring legislation is enacted into law, the Board should begin similar participation and leadership in a process of consensus building that will ultimately lead to gas restructuring legislation. The Board should issue an order that effectively tables the five SVG plan filing proceedings.

Iowa Association of School Boards

IASB believes SVG transportation must proceed with haste and be available at the earliest possible date. Making SVG transportation available by August 1999 is important to allow customers time to obtain natural gas supply and make necessary delivery arrangements in readiness for the heating season. IASB strongly objects to the suggestion of tying SVG customer choice to electric choice legislation. Large volume gas customers have had choice for years. That choice has been accommodated without legislation. Tying implementation of transportation of natural gas to electric choice would unnecessarily delay economic benefits that are available to large volume customers but currently denied to small volume customers.

Northern Natural Gas Company

NNG's comments focus on incorporating capacity planning provisions into its future actions in the SVG dockets and not on a recommendation for process.

Options For Proceeding

Below is a discussion of the advantages and disadvantages associated with each identified option for proceeding with the development of SVG transportation service. The options include a Legislative Approach, an Intermediate Approach as outlined in Attachment A (a document prepared by staff), and the Tariff Filing Approach provided in 199 IAC 19.13.4(e). These rules address the barriers to SVG transportation service in Iowa. Also included within each of the three sections is a discussion of procedural issues related to each approach.

Legislative Approach

Under this approach, Board staff would work with interested parties on developing comprehensive consensus legislation addressing small volume gas transportation for introduction in the year following passage of electric restructuring legislation. It is envisioned, under this approach, that small customer choice in electric and gas would occur on the same date.

Staff Analysis: The following table summarizes the advantages and disadvantages of the legislative approach. These advantages and disadvantages are explained in more detail following the table.

ADVANTAGES	DISADVANTAGES
1) Allows for Full Restructuring • Mitigation of Market Power • Stronger Affiliate Transaction Authority • Customer Education Funding • Specific Penalty Provisions • Codified Customer Protections • Reliability/Universal Service • Transition Cost Recovery	1) Delay in Implementation of Small Volume Gas Transportation (e.g., May 1, 2002)
2) Coordinates Gas and Electric Choice • Provides Additional Margins for Marketers • Mitigates Customer Confusion • Creates Consistent Marketplace • Allows for Joint Billing • Provides Customer Education Economies	2) Risk of Not Reaching Consensus
3) Minimizes Transition Costs • Expiration of Capacity Contracts in 2003 • System Improvement Planning	3) Ties Success to Success of Electric Restructuring
4) Increases Market Certainty • Capacity Planning • System Enhancements • Open Access/Customer Protections/Billing	
5) Avoids Judicial Review of Obligation to Supply Issue	

Advantages to Legislative Approach

1) *Full Restructuring* - Current statutes may not provide sufficient authority to protect small volume customers and competitive suppliers in a restructured gas market. Deficiencies in the current statute include: a) ineffective or cumbersome penalty and enforcement provisions; b) insufficient authority to address incumbent market power issues such as name recognition, prohibitions on joint advertising, and affiliate transactions; c) no provisions for funding customer education or ensuring customer protections in a market environment; d) no specific transition cost recovery authority (i.e., the only avenue available is rate case or purchased gas adjustment (PGA) recovery); and e) non-specific language regarding reliability and universal service.

2) *Coordination with Electric Choice* - Many advantages would accrue to both consumers and competitors if SVG choice in gas could be coordinated with choice in electricity. These advantages include:

- Increasing margins for suppliers wanting to serve Iowa - Marketing is one of the highest costs incurred in serving small volume customers. Marketing costs are mitigated when suppliers provide both gas and electric services at the same time to the same customers. This increases the margins available to competitive suppliers of both electric and gas services and encourages entry into small customer markets. Without this combined marketing effort, there will be little entry into small customer markets. A case in point is the MidAmerican electric pilot in Council Bluffs. Entry into the Council Bluffs' pilot has been limited by tight margins. Margins available to competitors providing SVG supply are also tight, because only capacity savings are available (i.e., the LDC already competitively provisions gas supply through the wholesale market for small volume customers).

- Mitigating customer confusion - Customer confusion can be mitigated by having one marketer provide both gas and electric service. This is particularly true since many Iowa consumers currently receive gas and electric service from the same company. In addition, a one time change in the provisioning of energy services would be less confusing to small volume customers than introducing gas choice next year and electric choice in 2002.

- Consistent marketplace - Several issues overlap when considering the competitive provisioning of gas and electric services to small volume customers. Certification requirements, market power remedies, codes of conduct, administration of open access, customer protections, etc. are similar, if not identical, for both industries. Coordinating gas and electric choice provides an opportunity to create a statewide, consistent market that will encourage competitive entry.

- Joint Billing - MidAmerican Energy jointly bills for gas and electric service. Studies have shown a strong customer preference for one bill versus two bills. Coordinating electric and gas choice allows marketers to jointly bill for these services.

- Customer Education - A strong customer education campaign needs to be implemented for both small volume customer choice in gas and electric. The cost of educating customers on choice can be mitigated to the extent these services and markets overlap.

3) *Minimizes Transition Costs* - Transition costs for gas services include uneconomic pipeline capacity contracts and start-up costs. Choice in May

2002 limits the transition costs associated with pipeline capacity contracts, because most of these contracts expire in 2003. In addition, choice in 2002 provides sufficient lead-time for the LDCs to put in place the system improvements needed to accommodate equal access on the distribution system.

4) *Market Certainty* - Most parties agree a change in statute is needed before full restructuring of the gas industry can take place in Iowa. Temporary fixes and interim rules do little to alleviate market uncertainty. This uncertainty could limit market entry. Competing suppliers require complete information on open access, customer protections, marketing restrictions, and billing expectations. In addition, LDCs may be required to enhance their distribution systems and operational support systems in order to accommodate equal access. Both the LDCs and potential competitors need market information before making capacity contracting decisions.

5) *Obligation to Supply* - MidAmerican and Alliant maintain that current statutes do not obligate the LDCs to supply gas. General Counsel maintains that the LDCs have an obligation to supply. In filed comments, MidAmerican , Alliant and the Consumer Advocate indicate that any administrative action on small volume gas transportation regarding the obligation to supply would likely become the subject of a judicial appeal. A legislative approach could be used to clarify the LDCs' obligations, thus avoiding the delay caused by a judicial review of this issue.

Disadvantages to Legislative Approach

1) *Timeliness* - Nicor and the IASB desire the immediate removal of impediments precluding SVG transportation. Neither party wants to wait until there is choice in electricity.

2) *Risk of Not Reaching Consensus* - More interests are attracted to the legislative process than to administrative proceedings which may make it difficult to reach consensus.

3) *Tying Success to Electric Restructuring* - Under this approach, SVG transportation is tied to the passage of electric restructuring legislation. If electric restructuring legislation fails to pass, gas restructuring legislation would likely not be worthwhile. It is difficult for the competitive provisioning of SVG to stand on its own given the tight margins and high marketing costs.

Procedural Discussion

If this approach is taken, the Board could dismiss the plans filed by the utilities. The NOI docket could remain open and the Board could later determine how much it wants to use that proceeding as a structure in which to facilitate the development of legislation. The Board could use the NOI docket as a means to announce its new direction.

The current rules contain no requirements for Board action. Since the utility filing requirements under the rules have been met and the dates have expired, the Board could leave the current rules as they are and proceed with preliminary development of new rules in anticipation of implementing legislation. Because 1999 Iowa Code Supplement § 476.86 directs the Board to adopt rules for criteria for certification, the Board should proceed with noticing very minimal "transition-like" certification rules.

Intermediate Approach

The Intermediate Approach developed by staff is attached separately and labeled Attachment A. Staff prepared this document by addressing each of the issues raised in the NOI-98-3 workshop process.

Staff Analysis: The following table summarizes the advantages and disadvantages of the Intermediate Approach. These advantages and disadvantages are explained in more detail following the table.

ADVANTAGES	DISADVANTAGES
1) Offers a Detailed Competitive Option Without Legislation	1) Risk of Non-Cooperation by Utilities
2) Near Consensus of Workshop	2) Inconsistency with HF 740
3) Allows for Quick Implementation	3) Cost Recovery Problems
4) Uniformity	4) Risk of Marketer Disinterest
	5) Customer Confusion
	6) No Effective Way to Ensure Compliance with Market Power Remedies
	7) Rules Necessary to Establish Plan Could Predetermine Rules for Electricity

Advantages to Intermediate Approach

1) *Offers a Detailed Competitive Option Without Legislation* - This approach allows the Board to take quick action without waiting for a long-term legislative strategy. The plan removes a number of the key barriers to entry (e.g., excessive administrative charges and telemetering) without causing undo harm to utilities. This plan builds on the rule changes proposed in Docket No. RMU-96-12 but goes further by considering other details not addressed in the 1997 rulemaking (e.g., unneeded capacity,

operational issues, the responsibilities of utility affiliates, and transition costs).

2) *Near Consensus of Workshop* - Participants in the workshop process discussed a wide range of issues and reached near agreement on a number of issues. Staff incorporated areas of consensus and included detailed recommendations on all the principal issues discussed in the workshop. Considering the divergent interests of stakeholders, the plan strikes a reasoned balance of conflicting objectives.

3) *Reasonably Quick Implementation* - An implementation date of less than 12 months may permit customers to take advantage of the benefits of choice quickly. A 12 to 18-month time frame should be sufficient time to address the implementation issues proposed in the plan: planning and implementing a limited customer education program, establishing administrative/pooling rates, and certifying marketers and establishing new rules as needed. The time until the first day of choice can be used by utilities to make necessary system improvements.

4) *Uniformity* - The plan incorporates a high degree, if not complete, statewide uniformity in the way each utility would operate its small volume transportation program. Uniformity makes it easier and less costly for competitive natural gas providers and aggregators to meet data exchange, billing, certification, and service requirements. Minimizing these costs will improve the chances of encouraging potential competitors to enter the market.

Disadvantages to Intermediate Approach

1) *Risk of Non-Cooperation by Utilities* - Utilities may dislike parts of the plan, particularly the continued obligation to supply. Successful implementation of this plan, or any other change to the status quo, will depend on the active support of utilities.

2) *Inconsistency with HF 740* - This plan does not include some of the significant changes proposed in HF 740 nor is it possible to anticipate the final legislative package after all amendments are considered. If the final legislative package is significantly different from the structure of this plan, this creates the possibility of two transitions, causing confusion for customers, imposing additional costs on utilities, and creating uncertainty for marketers (see section on marketer disinterest below).

Some of the inconsistencies are attributable to staff's efforts to construct a simplified plan capable of being implemented within a tight timeframe. For example, unlike HF 740, the plan does not call for rate unbundling or outline details for transition cost recovery, and the winter moratorium and meter reading responsibilities stay with the utility. If small volume users experience two transition periods, they may be confused by two customer education programs, changes in billing options, changes in rates, and changes in the names of the companies providing them service. Issues that could raise costs for utilities include changes in rules on the use of name and logo, changes to affiliate separation rules, and changes in utility responsibilities that require them to make multiple changes to customer service systems.

3) *Cost Recovery Problems* - There are three basic cost recovery problems: new charges, rate unbundling, and research and development.

- New charges - There is some question whether an intermediate approach would impose new costs or create economic efficiencies for utilities which would necessitate full rate case proceedings. Utilities may experience changes in costs related to program administration, system operations, and implementation. A full rate case is necessary if these changes affect the utilities' revenue requirements thereby necessitating a change in tariffed rates. A requirement for a full rate case for each utility would delay program implementation and harden any utility opposition to an intermediate approach.

- Rate unbundling - The plan does not call for a rate unbundling proceeding. Avoiding lengthy and contentious rate proceedings is good for meeting the quick implementation date, but the advantage of a full rate proceeding is to properly adjust regulated rates to reflect any change in actual costs incurred by the utilities. For example, under the proposed plan, utilities would continue to receive compensation for billing costs and uncollectibles even though billing and bill collections would become the responsibility of the competitive natural gas provider (CNGP).

- Research and development - The proposed plan does not recommend making any changes to the funding mechanism for the Energy Center and the Center for Global and Regional Environmental Research established in Iowa Code § 476.10A. However, participants in the electric collaborative recognized changes to the mechanism are necessary in order to maintain funding at current levels. Because the mechanism is coded in law, the only way to make a change is through new legislation.

4) *Risk of Marketer Disinterest* - There are components of the plan that, individually, may have only a slight negative impact on creating a competitive market. However, together they may create a barrier to entry for CNGPs. These items are billing, load aggregation and meter reading, low margins, and uncertainty.

- Billing - The plan proposes that CNGPs assume responsibility for billing. There are indications from MidAmerican's retail electric pilot program that the cost and complexity associated with developing billing systems may create a barrier to entry. Paying the LDC to provide this service is not practical, because the utility's systems are not currently programmed to perform disaggregated billing.[1]

- Load aggregation and meter reading - The plan keeps the responsibility of load aggregation and meter reading with the utilities. However, marketers participating in the electric collaborative process expressed doubt that a code of conduct would effectively curb the exchange of sensitive information between a utility and its affiliate. Leaving customer usage information in the hands of potential competitors will permit gas utilities to direct their unregulated affiliates to the most attractive customers.

- Uncertainty - To potential competitors, this plan may look and feel much like a pilot program, to the detriment of enticing companies to enter the market. Competitors may be scared away if they perceive the end-state may be different from the structure proposed. For example, CNGPs would be unwilling to sign long-term contracts with suppliers.

- Low margins - Latham & Associates, the natural gas aggregator for the I-JUMP program, said there is no competitive margin in gas. Competitors will only be interested if they are able to improve margins in other areas: billing, meter reading, and economies realized by offering integrated energy services for electric and gas. Meter reading is not made competitive under this plan, and integration with electric services will not be possible until at least 2002, the earliest date for choice in electricity.

5) *Customer Confusion* - Customers will be taken by surprise when subjected to educational and marketing materials about choosing a natural gas supplier. Conflicting messages about the advantages and disadvantages of choice will confuse end-users and will likely lead to initial leeriness over changes to the status quo. The timeframe for implementation does not allow time to build customer comfort levels. This customer confusion will be compounded if the rules on eligibility, participation, or consumer protections change as a result of a legislative initiative in the future.

6) *No Simple Way to Ensure Compliance with Market Power Remedies* - The Board may not have specific remedy or penalty authority to effectively

[1] The one exception may be MidAmerican, but it has expressed an interest in transferring its billing system to its unregulated affiliate.

eliminate and prevent anti-competitive behavior. The new CNGP legislation, § 476.86, gives the Board the authority to resolve disputes involving competitors. However, it does not provide specific penalty authority. In general, § 476.51, gives the Board the authority to levy a penalty after first warning the utility of an initial violation. In addition, § 476.14 provides the Board with the authority to commence an action in district court to seek an injunction or mandamus in the event any person violates Chapter 476 or any order of the Board. However, this remedy could be somewhat cumbersome. There is some additional penalty authority in the affiliate statute, § 476.74. Also, in § 476.83, the Board has the authority to adjudicate complaints involving cross-subsidization. However, that statute does not give the Board additional penalty authority.

7) *Rules Necessary to Establish a Plan Could Predetermine Rules for Electricity* - Implementation of this plan will require having new rules in place. Many issues requiring new rules, such as CNGP certification, CNGP creditworthiness, and use of name and logo, are common issues with electric restructuring. There is a danger that establishing rules for this Intermediate Approach will establish a standard and predetermine rules for electric.

Procedural Discussion

The Intermediate Approach involves several steps to remove existing barriers to competition with implementation in less than a 12-month period. In general, the delivery service would remain regulated and rates would be based on cost of service. The obligation to deliver would remain with the regulated utility, and the regulated utility would be the default supplier, provider of last resort, and the emergency supplier of natural gas. The role of gas supplier would be open to competition.

It would be necessary for the Board to set this policy in rules or action taken in contested cases regarding the proposed SVG plans. If the Board decides to commence necessary rule making proceedings, the Board should dismiss the SVG plans and commence the rule makings as soon as possible since the intermediate approach anticipates implementation within less than one year. If the Board chooses, instead, to continue with the plan review, it should immediately docket the plans and establish procedural schedules. After the Board makes a decision on the initial contested case, the other cases would probably proceed reasonably quickly or through settlement. The Board would also likely want to incorporate some aspects of the approved plans in rules.

Since the Board is directed by statute to adopt rules to establish certification criteria, this must be done in a rulemaking proceeding and these comprehensive rules should be noticed as soon as possible. In addition, under the Intermediate Approach, it appears that a rate proceeding would be needed to determine the types and amounts of costs a utility can recover. For example, the reasonableness of a cost-based pooling charge, which the utility would charge the marketer, would need to be determined by the Board, as would the customer education costs a utility wishes to recover in rates. Even if a surcharge were assessed to all small volume customers to recover customer education costs, it would be necessary to conduct a rate proceeding to determine the recovery amount.

Finally, the Board could leave the NOI docket open to serve as a framework for a collaborative process to develop customer education materials.

Tariff Filing Approach

Under this approach, the Board would require each utility to file tariff changes that would remove the primary barriers to small volume transportation. The tariff changes would cover the points listed in 199 IAC 19.13(4)"e." The present rule, adopted in 1997, allowed utilities, as an alternative to these tariff changes, to file small volume transportation plans. All utilities chose the plan alternative. Those plan filings led to the workshop process.

The items to be filed as tariff changes in 19.13(4)"e" are:

(1) Administrative fees shall be no higher than customer charges;
(2) Telemetering, daily metering, and daily balancing requirements shall not be required unless a utility demonstrates that the particular customer's potential imbalances could affect the integrity of the system;
(3) Means of resolving monthly imbalances shall be described;
(4) Rates, terms, and conditions for marketer's use of the utility's upstream pipeline capacity and storage shall be provided;
(5) Billing arrangements may be negotiated between marketer, utility, and customer. Arrangements must include any two of the following three billing patterns: single billing from the marketer with reimbursement of tariff rates to the utility; single billing from the utility which includes the marketer's gas cost; or separate billing by the marketer for gas supply and by the utility for transportation.

Under this approach, the Board would not require utilities to conduct an informational program or conduct its own public education.

Staff Analysis: The following table summarizes the advantages and disadvantages of the Tariff Filing approach. These advantages and disadvantages are explained in more detail following the table.

ADVANTAGES	DISADVANTAGES
1) Can be Implemented Quickly	1) Will Attract Few Small Volume Customers
2) Extends Competition without Mass Marketing	2) Invites Cherry Picking
3) Can be Combined with Later Legislation • Reduces Impact of Predetermining Comparable Issues for Electric (Disclosure, Application Process)	3) Requires Marketer Participation
4) Extends the Existing Transportation Scheme	4) Does not Resolve End-State Vision
5) Invites Additional Programs like I-JUMP	5) Does not Resolve Market Power, Name and Logo, or Policing Issues
6) Needs less Extensive Certification • Reduces Impact of Predetermining Comparable Issues for Electric (Disclosure, Application Process)	6) Utilities May Object • Existing Systems – Billing, Balancing • Administrative Charges too Low

Advantages to Tariff Filing Approach

1) *Quick Implementation* - Staff believes this option can be implemented more rapidly than the others. It may require a rulemaking, but one which would cover ground the parties have recently covered. On the other hand, the Board may be able to direct the parties to file tariffs by order and avoid a rule making at this time.

2) *Extends Competition without Mass Marketing* - This option allows some extension of competition without a public education program, based on the assumption that this option would not lead to marketing on a mass scale. Staff lists this as an advantage because it avoids the concerns about confusing the public with gas information that might conflict with electricity information or with a possible later gas program. Marketers could begin operations in Iowa on a limited scale.

3) *Can be Combined with Later Legislation* - This option can be combined with a decision to pursue gas legislation either in conjunction with electric legislation or at a later time. It defers the question of more aggressive or more complete gas restructuring. It is compatible with linking gas to electric restructuring legislation or pursuing gas restructuring in separate legislation at a later time. It makes no determinations that might be inconsistent with negotiations in the electric legislation. It avoids a commitment on how closely gas restructuring should track electricity.

4) *Extends Existing Transportation Scheme* - The tariff changes would extend the existing large-volume transportation scheme to small volume customers. The Board has interpreted current statutes and rules as allowing transportation service with the utility providing a commodity service that can be chosen by any customer. In theory, a transportation alternative has always been available to small volume customers. It is not chosen or marketed, in fact, because of obstacles in utilities' current tariffs. By removing the obstacles, small volume customers could realistically use the transportation options already available.

5) *Invites Additional Programs Like I-JUMP* - Staff anticipates that this approach would encourage marketers to initiate additional programs like I-JUMP. Rather than mass marketing, small numbers of customers, probably with some linking attribute (e.g., a fast-food chain) would be aggregated for gas supply purposes. These programs would not create burdens on the utilities' billing systems or operations. They would provide the Board with more experience and would provide more indications of the level of savings available.

6) *Needs Less Extensive Certification* - The option, because it is not expected to involve mass marketing to the general public, would require less extensive certification rules. Transportation to the large-volume customer market has fared well without certification. The experience has been that sophisticated customers can take care of themselves. The same wisdom applies to high-end small volume customers. The need for extensive consumer protection only arises for the general residential customers. If they are not involved, those protections can be skipped in the first certification rules.

Disadvantages to Tariff Filing Approach

1) *Will Attract Few Small Volume Customers* - Staff anticipates this option would attract few small volume customers. It can thus be faulted for limited results. This disadvantage is the mirror image of the advantage of no mass marketing.

2) *Invites Cherry Picking* - This option can be faulted for inviting highly selective marketing to only the most attractive small volume customers. These customers are commercial customers, especially those that can be aggregated in the way that I-JUMP has aggregated schools.

3) *Requires Marketer Participation* - This option is highly dependent on marketer initiative. Without publicity, customers cannot be expected to seek out competitive service.

4) *Does Not Resolve End-State Vision* - This option does nothing to resolve an end-state vision for the gas industry. It is the mirror-image of the advantage of flexibility for later legislation.

5) *Does Not Resolve Market Power, Name and Logo, or Policing Issues* - Similarly, this option defers decisions on market power, name and logo, or policing issues.

6) *Utility Objections to This Option Can be Expected* - On the one hand, some may argue that it goes too far, leaving utilities exposed to variations in gas supply, imposing uncompensated operational risk, and not allowing adequate cost recovery. Others might criticize it for not going far enough, because the utility role as supplier of last resort is retained.

Implementation

Currently, SVG rules require three billing options, with the customer having the final choice. Utilities are resistant to the single billing version where they would bill for a marketer's gas charges. Their objection is largely based on the cost of offering that option on a large scale. Staff suggests one important modification from the existing rule. The modification would eliminate the option of a single bill from the utility. The objections would also be diminished because of the smaller number of customers likely to be involved.

After tariff changes are in effect, the initiative would pass to marketers to recruit appropriate customer groups, just as they now recruit larger customers. The Board might consider what information it would like to have reported.

Expectations

Staff anticipates this proposal would lead to some additional narrowly focused marketing efforts and ease the formation of more affinity-linked customer groups like I-JUMP. The effect would be some extension of transportation service, based on actual benefits to the customers. The circle of customers might expand if the first programs are successful.

The Board could legitimately state that no artificial barriers to competition remain. The amount of competition, even if small, would be driven by economics rather than regulatory policy.

Competition would not be stimulated by a public education program. Avoiding publicity avoids conflicting with or distracting from publicity for electric competition programs, or a more extensive gas effort if one is later adopted. Existing obligations to serve would be maintained.

Under the tariff filing approach, an alternative to filing tariffs in compliance with 199 IAC 19.13(4)"e" would be for the utilities to expand and/or file I-JUMP type tariffs. Four of the LDCs currently have specific I-JUMP tariffs and the fifth Iowa LDC (Peoples) has been granted a waiver concerning the reconnection fee for I-JUMP customers. The I-JUMP tariffs address utility specific barriers and have achieved customer participation. These programs are limited to schools who are members of the IASB. Expanding the availability of these programs could be viewed as addressing utility specific barriers. This approach could give the Board the opportunity to gather information and observe the development of these programs prior to full statewide SVG implementation. The I-JUMP program is being conducted under tariff pages that describe it in experimental terms. Using the logic of a pilot project downplays two problems and accentuates one. On the positive side, it minimizes the likelihood the utilities would propose unworkable tariffs (since the Board already knows the I-JUMP tariffs are workable). Second, it provides a basis for limiting the test market to ten percent (or some other amount) of the small volume customer base. On the other hand, the impermanence of a pilot project will tend to diminish marketer interest.

Procedural Discussion

If the Board decides to direct the utilities to file tariffs consistent with 199 IAC 19.13(4)"e" while it considers whether to seek legislation to achieve complete restructuring, it should dismiss the SVG plans and direct each utility to file tariffs. As for the tariff changes regarding billing which is discussed above, the Board could either amend its rules to include this change or order the utilities to file tariffs which include this change within the Board Order dismissing the plans. The problem with commencing a rule making is that it would delay the filing of tariffs for several months. Depending on the filings themselves and objections filed, the Board would most likely docket the tariff filings for investigation and conduct contested cases. Each would need to be reviewed to assure that it makes the required changes and that it does not introduce new barriers.

It would be necessary to notice minimal “transition-like” rules regarding certification criteria. The Board could conclude the NOI docket or leave it open to serve as a framework for the legislative process. In either case, the Board could use the NOI docket as a means to announce its new direction.

Small Volume Gas Plan Filings

Following is a brief discussion of the SVG plans that were filed. Between October 15, 1998, and January 19, 1999, each of the utilities filed a SVG plan. The SVG plans filed by MidAmerican Energy Company (SVG-98-1), IES Utilities Inc. (SVG-98-2) and Interstate Power Company (SVG-98-3) each included the provision that the regulated utility would exit the merchant function. In these plans, the utility's affiliate would provide natural gas to the customers who do not choose an alternate natural gas provider.

Peoples Natural Gas Company's initial plan (TF-98-256) was rejected by the Board because it did not offer a competitive option to residential customers. It included alternate pricing options which would be offered by Peoples. Peoples filed a revised plan (SVG-98-5) which again included the pricing options and a three year phase-in period for competitive choice for residential customers. In phase one, 10 percent of residential customers (geographically limited to six counties in the northeast corner of Iowa) would be given a competitive choice, phase two would include 50 percent, and in phase three, the final phase, all of Peoples' residential customers would have supplier choice.

United Cities' plan (SVG-98-4) does not include resolution of many of the issues set forth in 199 IAC 19.13(4)"f." It includes a progress report of the work that had been done to date and a plan to investigate important issues as the unbundling process evolves in Iowa.

Conclusion

This report discusses the development of small volume gas transportation in Iowa. Between October 15, 1998, and January 19, 1999, each of the utilities filed a SVG plan in compliance with 199 IAC 19.13(4)"f." This report concludes that the exercise of filing the plans prior to the workshop process provided a good foundation to begin discussion of relevant issues. However, these plans do not provide a satisfactory means to open natural gas markets for Iowa's small volume customers and should be dismissed.

This report evaluates and discusses three approaches to implementing small volume gas programs. The Intermediate Approach should not be adopted at this time, because the disadvantages of this approach outweigh the advantages. The most serious disadvantage of the Intermediate Approach is the differences it would create between electric and gas markets. Because the Intermediate Approach was designed to avoid the need for legislative change, it has an undefined end state and uses market mechanisms that are inconsistent with a legislative approach. For example, the Intermediate Approach requires utilities to continue as marketers but to cooperate extensively with competing suppliers.

This report concludes that a legislative approach is ultimately required to fully restructure the gas industry. If electric markets are restructured and the Board determines it is appropriate to fully restructure the gas industry, then a legislative approach is needed. The Board should establish a forum to develop consensus legislation. This forum should only take place after the General Assembly passes and the Governor signs electric restructuring legislation. The goal of the forum would be to develop consensus legislation for introduction in the next legislative session. The Board should exercise leadership in the forum and in drafting the legislation. The issues developed in the Intermediate Approach provide excellent ideas for an initial draft, which would likely amend Chapter 476B (the chapter which would be created by HF 740).

Full choice for SVG customers should be coordinated with choice in electricity. Coordination between electric restructuring and gas restructuring would provide the following benefits: 1) Increased margins to marketers offering both gas and electric services; 2) Minimization of customer and supplier confusion; 3) Provide uniform rules and administration of both markets; 4) Mitigation of education costs; and 5) Allow for joint billing.

Although a legislative approach is ultimately needed to fully restructure the gas industry, some would argue that a tariff filing approach could provide an interim alternative. The tariff approach could pave the way for more aggregation without requiring the extensive education, consumer protections, and certification requirements necessary for full small customer choice. This short-term approach could allow for growth of competition without major market disruption. Legislative alternatives are not foreclosed by this option, because this approach does not commit the Board to any new end-state and does not require the Board to take public positions or promote consumer education. In addition, extending natural gas competition using the existing model avoids possible inconsistencies with the Board's position on electric restructuring.

On the other hand, it is questionable whether the margins available to aggregators are sufficient to attract competitive supply without requiring the transporting LDCs to offset some of the administrative costs. In other words, LDC ratepayers may currently be subsidizing aggregated gas supply programs such as I-JUMP. Some would argue that aggregated gas programs should not be encouraged unless they are self-sustaining and provide adequate margins to attract competitive supply. Also, the preparation and review of tariffs could expend significant staff resources, without facilitating much additional competition.

If the Board chooses the tariff filing alternative, the Board should consider limiting customer eligibility to ten percent of total SVG volumes in order to respond to concerns about the utilities' ability to transition to serve a large number of SVG customers as transportation customers. The Board should direct the LDCs to file tariffs which are generally based on 199-19.13(4)"e." The utilities should be encouraged to consider their existing I-JUMP tariffs as a model for the expanded availability.

Once the Board has determined the future direction of small volume gas transportation in Iowa, the Board will need to proceed with marketer certification rules. The new CNGP legislation, § 476.86 requires the Board to adopt rules establishing certification requirements for competitive gas suppliers. If the Board chooses the tariff approach or the legislative approach, minimal rules could be proposed now to comply with the legislative mandate. These rules could then be expanded, after full gas restructuring, to be consistent with certification requirements for competitive electric service providers.

Attachment A

Small Volume Gas
Intermediate Approach

Introduction

This draft plan offers one possible approach for implementing choice for small volume gas customers. Staff developed this approach after careful examination of each of the major issues raised in the workshop process. The plan is based upon the following five assumptions:

1. *Rapid implementation is feasible* - Steps can be taken now to remove existing barriers that currently prevent small volume customers from actively choosing their energy service company.
2. *Implementation date* - The implementation date (or day of customer choice) should be less than one year after Board adoption of this approach.
3. *Obligation to supply* - Any change in the LDCs' obligation to supply natural gas requires statutory changes. The plan therefore operates under the implementation assumption that the statutory changes have not been made at the time of implementation.
4. *Uniformity* - The plan incorporates a high degree, if not complete, statewide uniformity among the LDCs' small volume gas programs. This is a possible starting point for small volume transportation implementation in the short term.
5. *Consistency with HF 740* - Wherever feasible, this plan seeks to be consistent with HF 740. As a long term goal, consistency in the development of a competitive electric industry and the small volume gas market will maximize efficiencies.

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The Intermediate Plan

Distribution Issues

1. Delivery Service Remains Regulated – Obligation to Deliver – Cost of Service

Staff Proposal: Workshop participants agree that delivery service shall remain regulated and delivery service rates should be based on cost of service. The workshop issues matrix indicates that the participants reached apparent agreement that LDCs have, in fact, delivered natural gas as if they had the obligation to deliver. The obligation to deliver should remain with the regulated utility.

2. Obligation to Supply

Staff Proposal: This proposal incorporates the assumption that there is a statutory obligation for LDCs to provide a regulated gas supply until relieved from this obligation. Therefore, the regulated utility is the default provider, provider of last resort, and emergency supplier of natural gas.

Rationale: Because the regulated utility is currently obligated to supply, it is appropriate for the regulated utility to function as the default provider, provider of last resort, and emergency supplier of natural gas. As competition develops, and perhaps with appropriate legislative changes, the appropriate provider of these functions can be explored further. The workshop participants were divided on the necessity for legislation to address this issue. The participants agree that a solution may be a transition period that addresses “safety net” concerns for affordability and reliability. This proposal achieves that transitional approach.

3. Default Provider

Staff Proposal: The regulated utility should serve as the default provider and the provider of last resort. As the provider of last resort, the regulated utility should also serve as the emergency supplier. Small volume customers who wish to exercise their option to choose a competitive supplier will be required to make an active selection. Customers who have not made a selection will not automatically default to the utility's unregulated business unit.

Rationale: Default provider is defined as the provider who provides natural gas to the customers who choose not to choose. The provider of last resort is the provider who provides service to customers who cannot obtain a natural gas provider on the open market and the provider who provides emergency service in the event of marketer failure to supply. The utility is the appropriate entity to provide this function given the immediacy of the implementation date. Because the utilities will continue to provide regulated gas supply, this proposal accommodates a customer's preference to stay with his or her current utility company. These concepts may need to be revisited as the small volume gas market develops.

4. Gas Supply Reserve

Staff Proposal: The purpose of back-up reserve is to maintain system integrity. Because the regulated utility is the default provider, the regulated utility will hold capacity resources necessary to serve its system customers.

Rationale: Marketers will only need natural gas from the utility if they default or are in an imbalance situation. The certification rules will address marketer default, and the imbalance section addresses imbalance penalties. No back-up gas supply reserve is necessary since marketers will be required to pay for any gas that the LDC must secure in the open market on their behalf. Current Board rules allow utilities to maintain a positive capacity reserve margin.

5. Use of Parent's Corporate Name and Logo

Staff Proposal: There should be no limitations on the use of corporate name and logo. Utilities should be allowed to use a name and logo of their choosing for both the distribution function and their affiliated marketer. If an affiliated marketer uses the same name as its corporate parent, a Board approved and/or developed tag line should be required identifying its relationship to the regulated distribution company. If HF 740 passes, treatment of name and logo should be consistent for both electric and gas.

Rationale: This is the only feasible option given the interim nature of this plan. Fashioning restrictions on the use of name and logo is an end state issue and no changes should be made until the outcome of HF 740 is known. A policy decision one way now, only to be reversed by legislation or further Board action later, will cause confusion for market participants and produce substantial costs for companies. These considerations outweigh the advantages utilities will have over non-affiliated marketers through greater name recognition. The purpose of the tag line is to inform customers the Board does not regulate the rates charged by the affiliated marketer. Following is a tag line developed by staff: [Utility] provides identical services for customers of all natural gas providers. [Affiliate], a natural gas provider, is a corporate affiliate of [Utility]. [Affiliate] and [Utility] operate as separate businesses.

6. Code of Conduct - Distribution Companies

Staff Proposal: The Board should propose rules establishing standards of conduct for LDCs to ensure LDCs treat all marketers uniformly including their marketing affiliate. The standards of conduct should include, at a minimum, the following conditions:

1) *Tariff Enforcement*: The LDC shall apply and enforce all tariff provisions in a nondiscriminatory manner to similarly situated entities.
2) *Tariff Information Disclosure*: The LDC shall disclose gas delivery tariff information on a nondiscriminatory basis in terms of timing, content or format to any marketer providing gas service on the LDC's system.
3) *Request for Service*: The LDC shall process a request by a customer for service in a nondiscriminatory manner.
4) *Availability of Discount*: If the LDC makes available a discount, rebate or fee, it shall do so on a nondiscriminatory basis to all similarly situated entities.
5) *Employee Sharing*: LDC employees and offices engaged in receiving marketer requests for the transportation and/or scheduling of gas shall not be shared with a marketing affiliate.
6) *Financial Books and Records*: LDCs shall maintain separate books of accounts and financial records from any marketer.
7) *Independence of Regulated Service*: LDCs shall not condition or tie the provision of any regulated service to the provision of any product or service offered by any marketer.
8) *Supplier Customer Information*: LDCs shall not provide specific customer related information to anyone other than the customer, the customer's agent, or the customer's marketer, unless such information is generally available.
9) *Information Provided by LDC*: LDCs shall not provide any marketer preferential access to information that is not otherwise made publicly available. This standard shall not prevent LDCs from providing a marketer information regarding the marketer's customers.
10) *Representation of Preference:* LDCs shall not represent that any advantage accrues to customers or others in the use of the LDC's

distribution services as a result of that customer or others dealing with any marketer.

11) *Complaint Procedure*: LDCs shall establish a complaint procedure applicable to these gas standards. All complaints, whether written or verbal, shall be assigned to a designated person who shall acknowledge each complaint within ten working days after receipt. Copies of all complaint correspondence shall be provided to the Board.

Rationale: Standards of conduct are essential to ensure marketers are not advantaged by their affiliation with an LDC. The proposed standards were adopted for electric delivery service providers by the Board in its "Order Adopting Pilot Project Guidelines for MidAmerican Energy Company," dated February 10, 1998. MidAmerican proposed these same standards in their small volume gas plan and are consistent with standards established in HF 740. Under the intermediate approach, these standards would be included in the proposed marketer certification rule making.

7. Affiliate Transactions

Staff Proposal: If an LDC chooses to provide competitive gas supply services through an affiliate business unit, the LDC and its gas supply affiliate will be subject to current Board affiliate rules (199 IAC 31 (1999)).

Rationale: 199 IAC 31 (1999) establishes rules for the purposes of minimizing the possibility of cross subsidization or unfair competitive advantage and preventing a marketing affiliate from including its costs and expenses in the regulated rates of its parent LDC. Under the intermediate approach, the marketer certification rule making would include a distribution company code of conduct. This would be in addition to existing affiliate rules.

8. Service Connection and Termination

Staff Proposal: Workshop participants agree that the function of installing and maintaining the actual meter should remain with the regulated utility due to DOT safety requirements. As such, the regulated utility will remain in control of physical service connection and termination.

9. Meter Facilities / Meter Reading

Staff Proposal: The distribution utility should remain responsible for maintaining and reading the meter. However, meter reading is a service that could become competitive once rates are unbundled.

Rationale: Due to DOT safety regulations, installation and maintenance of the meters must remain with the utilities. The data obtained from meter reading should be made available to marketers to the extent that they need it, and the utilities should be compensated for the cost associated with providing this information. The costs of the meter reading function are currently recovered in rates. As a small volume market develops and matures in Iowa, meter reading could be provided competitively. If this service becomes competitive, all costs associated with providing the service should be unbundled from regulated rates.

10. Social Programs and Research and Development

a. Winter Moratorium

Staff Proposal: The regulated utility, as the provider of last resort, should provide winter moratorium protection.

Rationale: The LDC is subject to Iowa Code § 476.20 which prohibits them from disconnecting eligible customers during the moratorium period. The regulated utility currently recovers the costs associated with providing this protection. The alternative of holding marketers to this standard as well as the regulated utility would create a barrier to entry.

b. Energy Efficiency

Staff Proposal: All customers currently paying energy efficiency recovery factors should continue to pay those costs on an ongoing basis. Migration to transportation service should not be a means to bypass these charges. All customers currently eligible for energy efficiency programs should remain eligible regardless of whether they elect to participate in the small volume gas transportation program.

Rationale: The current status of energy efficiency programs and energy efficiency cost recovery should not change as a result of this proposal.

c. LIHEAP

Staff Proposal: Customers who receive LIHEAP funds should be eligible to choose a competitive natural gas provider, and marketers may not refuse service to these customers. The LIHEAP funds should be applied first to the regulated utility charges, and any remainder to the marketer's charges. This proposal does not include a recommendation for any supplemental funding for the LIHEAP program.

Rationale: The above proposal for distribution of the LIHEAP funds is consistent with the established Board practice of applying LIHEAP funds to regulated charges before unregulated charges. Staff will need to work with the Iowa Community Action Agency to work out the administrative details of directing funds.

d. Research and Development

Staff Proposal: No changes are proposed to the current funding mechanism for the Energy Center and the Center for Global and Regional Environmental Research (CGRER).

Rationale: Iowa Code § 476.10A establishes a funding mechanism for the Energy Center and CGRER based on utility operating revenues. LDC revenues will decrease if large numbers of customers begin taking transport service from marketers, including affiliate marketers. HF 740 establishes a distribution-based charge designed to maintain historical funding levels, but only for electric service.

Board staff should closely monitor any changes in funding levels for these programs going forward, and consider recommendations at a later time if necessary. One option could be to initiate stand-alone legislation to establish a distribution based charge fashioned after the electric proposal. If HF 740 passes, similar changes should be considered for gas.

11. Service Extensions

Staff Proposal: The current service extension rules for new customers (199 IAC 19.3(10)) will not be impacted by implementation of this plan.

Rationale: When an advance is necessary for the LDC to extend service to a new customer, the actual amount a customer will be required to contribute is calculated using an LDC's estimated base revenue for that customer. Estimated base revenues will not decline as the small volume gas market develops because they do not include supply costs.

Competitive Issues

12. Pooling Charge (a.k.a., administrative fee for small volume transportation)

Staff Proposal: The pooling charge is a new charge designed to recover costs incurred by LDCs for pooling customers for marketers. The pooling charge will only include administrative costs associated with load aggregation, load rates should be inverse to the size of the pools, and the rate for the smallest pools should be set to minimize barriers to entry. This charge is a monthly charge that will be paid by the marketer operating the pool to the LDC.

14. Marketer Failure to Supply

Staff Proposal: A marketer's failure to supply or marketer default is defined as a marketer's failure to supply natural gas to its customers for any 24-hour period within a 12-month period. If a marketer defaults and fails to deliver, it should be assessed substantial penalties. The proposed rules for marketer certification include a penalty equal to three times the replacement cost of natural gas. If a marketer defaults, the marketer's customers should revert to regulated utility system supply and should not incur a switching fee. The customer would remain an LDC system sales customer unless the customer selects another competitive supplier.

Rationale: The distinction between an incidence of a daily imbalance and a marketer default is the ten percent maximum associated with daily imbalances. If a marketer delivers from ninety percent up to the total requirement of natural gas it is required to deliver on a daily basis, daily imbalance penalties will be applicable. If a marketer delivers anything less than ninety percent of the quantity of natural gas it is required to deliver, it has defaulted and would be subject to the penalties that would be established in the proposed marketer certification rules, under the intermediate approach. The currently proposed penalty would be three times the actual replacement cost of the natural gas.

Because this proposal establishes the regulated utility as the emergency supplier, the LDC will have to obtain natural gas on the open market to supply natural gas in an instance of marketer default. These costs, in addition to penalties, should be recovered from the marketer if the marketer is solvent. If the marketer is not solvent and if the marketer was required to provide a bond as a condition of certification, the bond should be used to offset the replacement cost of the gas for the marketer's customers. Any revenue associated with marketer default penalties or the proceeds from the bond should be credited to the system PGA.

The 10 percent distinction between imbalances and defaults will serve as a good starting point in determining the appropriate distinction.

15. Customer Switching Fees & Limitations

Staff Proposal: The LDC shall not restrict customers from switching suppliers as long as the switch occurs coincident with the LDCs' billing cycle. Customers should be allowed one free round trip; one switch away from the LDC and one switch back to the LDC. A cost based switching fee should be charged for all other switches, except in the case of marketer default when the customer defaults to regulated utility service.

Rationale: The flexibility inherent in this proposal will be attractive to marketers entering the small volume gas market in Iowa. This in turn will maximize the participation of marketers. Further, the market may develop such that customers will sign up with marketers for specific contract periods, like they do with cell phone providers.

16. Slamming or Unauthorized Switching

Staff Proposal: Marketers should be required to make a commitment not to transfer the competitive natural gas account of any end-use consumer to another marketer except with the consent of the end-use consumer. Under the intermediate approach, this issue would be included in the marketer certification rule making.

Rationale: This issue should be addressed consistently in both electric and gas.

17. Billing

Staff Proposal: The Board should establish rules for the competitive provisioning of billing services consistent with the following conditions.

- Marketers will be responsible to arrange for all billing services.
- Marketers will offer customers both a single bill option and a two-bill option.
- LDCs will not be required to provide billing services for marketers but may do so at their own choosing. If a LDC wishes to offer billing services, it will be required to file a tariff establishing the terms, conditions, and cost based charges for the service. This service will be available to an affiliate marketer of the LDC under the same terms and conditions offered to competing marketers.
- Under the two-bill option, LDCs will bill customers directly for distribution service and will continue to be subject to billing rules and information requirements per 199 IAC 19.
- Under the one bill option, marketers will assume legal responsibility for payment of distribution service billings without regard to the timing or extent of payment by the customer.
- Marketers will be required to show the following information under both the one and two bill options (unless specified otherwise):
    - a. The period of time for which a billing is applicable;
    - b. the amount owed for current gas service, including an itemization of all related charges;
    - c. the amount owed for regulated distribution service, listed separately from unregulated gas service, and itemized with the same level of detail as submitted by the LDC (one-bill option only);
    - d. any past due amount owed;
    - e. the last date for timely payment;
    - f. the amount of penalty for any late payment;
    - g. the location for or method of remitting payment;

h. the name of the marketer and a toll-free telephone number for the customer to use in the event of an emergency;
i. the name of the LDC and a toll-free telephone number for the customer to use in the event of an interruption in service or an emergency regarding gas delivery; and
j. a toll-free telephone number for the customer to use for information and complaints regarding the marketer.

Rationale:

Consistency - This proposal is consistent with the billing requirements contained in HF 740 and MidAmerican's retail electric pilot. Board rules should be consistent (to whatever degree possible) with electric whether or not HF 740 passes. Requirements that pertain to marketers will be included as a condition of certification. Delivery companies should have the option to offer billing services to marketers. But, in order to prevent an artificial barrier to entry, delivery companies billing for their own affiliate marketer should be required to offer a comparable billing service to competing marketers at cost based rates.

Elimination of the third billing option - Under this proposal, customers are not offered the option to receive a single bill from the LDC. Providing this option poses two problems. First, the LDCs would incur considerable costs for billing system enhancements. Second, the marketer would be disclosing its price information to the LDC who could then pass this information on to its marketing affiliate (after bypassing code of conduct rules). It is believed these concerns outweigh the diminished contact between customers and their LDCs. For example, giving up the single billing option eliminates the LDC's ability to rely on billing inserts to inform customers about energy efficiency programs, safety information, distribution facility improvements, and the customer contribution fund. However, the LDC will not be prohibited from offering its billing services as a tariff option to all marketers.

Billing costs in bundled rates - LDCs will continue to collect the administrative costs associated with billing included in bundled rates. For the two bill option, the LDC will still incur costs to bill customers directly. For customers electing the one bill option, the LDC will incur costs to bill the marketer for distribution service provided to each of its pooled customers. Because billing costs will be recovered through customer charges, the pooling charge will not include any costs associated with billing.

18. Marketer Grievances

Staff Proposal: Customer complaints regarding the service provided by a marketer should be resolved using the complaint procedures in Chapter 6 of the Board's rules. The Board's Consumer Services Section's phone number should be included on all customer's bills. Complaints between competitors should be resolved through more formal complaint procedures, as set out in Iowa Code § 476.101(8) which is applicable to local exchange carrier disputes. Under the intermediate approach, this could be addressed in conjunction with rules regarding certification.

Rationale: The recently adopted natural gas marketer certification legislation (Iowa Code § 476.87(2)) gives the Board authority to "resolve disputes involving the provision of natural gas services by a competitive natural gas provider or aggregator." Thus, if there is a consumer grievance involving a marketer, the Board can resolve the dispute or, if there is a grievance arising between competitors, the Board has the authority to resolve the dispute.

Operational Issues

19. Telemetering, daily metering, and daily balancing requirements

Staff Proposal: Telemetering, daily metering, and individual daily balancing shall not be required for small volume gas transportation customers unless an LDC demonstrates to the Board that the particular customer's potential imbalances could affect the integrity of the system.

Rationale: The requirement of daily metering equipment for transportation customers creates a substantial cost barrier for small volume customers. The parties in the workshop agreed that this requirement is not necessary for this class of customers. It is unlikely that any customer eligible for this service will have the potential to affect the integrity of the system. However, on an aggregated basis, a daily balancing requirement is appropriate. This plan includes a daily balancing requirement and penalty structure.

20. Load Aggregation

Staff Proposal: There should be no minimum customer usage requirements for aggregation. However, small volume customers will be required to join a pool in order to participate in small volume transport. Pools should not be restricted to the specific interstate pipelines serving each LDC.

Rationale: Excluding a minimum usage requirement is consistent with the goal of opening up small volume gas transport to all customers. Mandatory pool membership is necessary in order to reduce the overall cost of providing this option to end-users. Cost savings are gained through administrative efficiencies, including the advantages of netting over and under deliveries in balancing the system. Reducing overall costs are important for the purpose of minimizing administrative pooling charges. Allowing the pools to include customers served by any interstate pipeline will encourage the development of larger pools. The

LDCs can manage this requirement operationally, when the LDC identifies the receipt points for delivery.

21a. LDC Load Forecasting

Staff Proposal: Each day, the LDC shall provide each marketer operating a small volume gas aggregated pool with the estimated daily natural gas requirement for its pool, by delivery point, based on forecasted weather and the customers' historical usage pattern. The pool operator will be responsible for delivering the specified amount of natural gas to the specific delivery points on the LDCs' distribution system. The costs of providing this forecast requirement is to be cost based and should be recovered in the pooling charge.

Rationale: This proposal balances the objectives of providing a cost effective small volume transportation service while, at the same time, giving the LDCs the tools necessary to manage the integrity of their respective systems. Meter reading remains a function of the LDC which helps to facilitate its responsibility for load forecasting.

21b. Marketer Load Forecasting

Staff Proposal: Marketers should have the option to elect to provide their own load forecasting. In order to provide load forecasting the marketer will need historical usage data, which the utility should provide. Marketers should be required to follow a predetermined nomination procedure.

Rationale: The LDC load forecast service described in number 21a above would be a beneficial alternative for smaller marketing companies. Larger, national marketers will have the technical ability to forecast the load requirements of their customer pool. Also, this alternative may be viable for the smaller marketers as they gain experience in the small volume markets. The pool operators who perform their own load forecasting will need historic customer usage data to develop their forecasts. The utilities should provide this information to the pool operator once the pool operator has signed up the customer. The marketer may

22. Monthly Cashout

Staff Proposal: The marketers' delivery requirement is based on a forecast and will differ from actual consumption. Therefore, on a monthly basis, the LDC will cash out the differences between consumption and delivery with the pool operator. The cashout mechanism should be priced at a representative index based weighted average monthly rate. All recoveries or costs resulting from the cashout mechanism should be applied to the system sales PGA only.

Rationale: The price for the cashout will be market based. Since the system sales PGA is the mechanism proposed to be used to manage these differences, it is appropriate to apply any cashout recoveries or costs to the system sales PGA. This proposal ensures that the system sales PGA is kept whole and avoids punishing pool operators for the differences between consumption and deliveries, providing that they deliver the exact amount of gas required by the LDC.

23. Daily Imbalances

Staff Proposal: On a daily basis, if a pool operator delivers a quantity which does not match the volume of gas the LDC required the pool operator to deliver, based on the forecasted volume by operational delivery point, the pool operator should be assessed imbalance charges. In addition to the following penalties, the actual over/under deliveries of gas will be cashed out in accordance with the monthly cashout provision discussed in a separate section of this plan. This proposal provides an incentive for marketers to deliver the required volume of gas and is a tool for the LDC to manage the integrity of its system. All revenue associated with penalties collected for daily imbalances be returned to all small volume gas customers. This revenue proposal is more fully discussed below in the "Small Volume Gas PGA" section.

Any daily imbalance in excess of ten percent of the quantity of gas the marketer is required to deliver constitutes a failure to deliver. Marketer failure is discussed in a separate section of this plan.

The following penalty structure is proposed for over/under delivery . This structure was set out in MidAmerican's proposed SVG plan and can serve as a starting point for uniformity on this issue.

1. Normal Gas Day Conditions

Over Delivery	$5.00 per Dth
Under Delivery	$5.00 per Dth

2. Critical Short Gas Day Conditions

Over Delivery	\$00.00 per Dth
Under Delivery	\$30.00 per Dth

3. Critical Long Gas Day Conditions

Over Delivery	\$10.00 per Dth
Under Delivery	\$00.00 per Dth

Additionally, marketers should be allowed to trade imbalances if they notify the LDC prior to the start of the gas day without being subject to any penalties.

Rationale: This is one of the issues that the workshop participants indicated having a willingness to move toward a uniform solution. MidAmerican's proposal is clear and easy to understand. This proposal is revenue neutral since any charges would be credited to all customers based on total throughput (see the proposed "Small Volume Gas PGA" below). This structure is intended to provide an incentive for pool operators to deliver the required volume of gas. If the penalty accomplishes its intended goal, marketers will deliver the appropriate volume of gas and they will not be in penalty situations. Additionally, as shown above, this methodology does not penalize marketers for over/under deliveries that do not harm the integrity of the system at critical times (no imbalance charge for over delivering gas on critical short days or under delivering gas on critical long days.) The option of allowing imbalance trading will offer the marketers a planning tool without harming the integrity of the LDC distribution system.

24. Small Volume Gas - PGA

Staff Proposal: A new PGA mechanism is necessary to allocate the revenue received from marketers associated with the daily imbalance penalties. This new small volume gas PGA (SVG-PGA) mechanism will not include any gas costs, only a proportionate share of penalties collected and will be applicable to all small volume customers, both sales and transportation.

Rationale: The purpose of the SVG-PGA is to achieve an equitable distribution of penalty revenue. By allocating a proportionate share of penalty revenue to all small volume customers based on the throughput for the class, no customers within the small volume class benefit at the expense of others.

25. Data Exchange

Staff Proposal: With the input of the various stakeholders, a statewide uniform format for data exchange should be established.

Rationale: Marketers and utilities will exchange information concerning customer enrollment, load forecasts, billing, and meter reading information. The workshop participants have agreed that an acceptable format must be standardized including electronic exchanges. Standardized information exchange is efficient and will enhance the development of the small volume gas market.

26. Interstate Pipeline Penalties

Staff Proposal: Each party should be responsible for any interstate pipeline penalties incurred as a result of their actions. Pipeline penalties attributable to pool operators will be passed on to the appropriate pool operator.

Rationale: This provision protects the LDC from financial responsibility for the actions of the pool operator.

Transition Issues

27. Marketer Access to Excess Capacity and Supply

Option 1. Assignment

The LDCs should assign any unneeded capacity and supply to the marketer. The allocation of excess capacity and supply should be representative of the LDC's portfolio volumes and costs. The assignment should not include recall rights. This method of assignment transfers the actual ownership of the asset to the marketer.

Rationale: This proposal allows excess capacity and supply to migrate to the marketers as customers migrate to transportation service. It eliminates the stranded cost issue since the marketer will be directly responsible for the assigned capacity and supply. This proposal also guarantees non-preferential treatment with respect to what services each marketer receives. Most of the LDC pipeline capacity contracts expire in 2003. Capacity assignment should cease as the specific contracts expire for customers entering the competitive environment between now and 2003. Beyond that time, marketers serving those customers will be responsible to secure adequate capacity to serve the needs of their respective customers. The Board would need to revisit this issue prospectively as 2003 and the need for LDCs to acquire new capacity contracts approaches. Current rules include reserve margin limitations. This requirement sets out parameters for the amount of capacity in excess of each of the LDCs' seven-year historic peak that can be fully recovered through the PGA. This provision will allow a means to monitor the potential for excess capacity. Supply contracts tend to be for shorter periods and therefore should not present a long term problem.

This option is not recommended because it creates a barrier to entry for marketers. Obtaining capacity and supply discounts allows marketers to reduce costs. Requiring marketers to take assignment of capacity and supply may eliminate any savings the marketer can offer to attract customers. Additionally, there are operational problems associated with the assignment method. If customers are allowed to switch suppliers monthly, the allocation of capacity and supply will not match customer's usage.

Option 2: Auction

The description of this option repeats much of the proposal offered in MidAmerican's SVG plan. After an LDC has identified the assets necessary to manage its system, the LDC should employ a posting and bidding process to allow third party suppliers to have access to the LDC's remaining natural gas portfolio. The utilities should provide the Board with all information necessary to determine that the appropriate amount of the LDC's portfolio is available for auction. Rates, terms and conditions should be determined in the posting and bidding process.

Parties interested in taking assignment of an LDC's unneeded capacity will be encouraged to submit competitive bids. Capacity will be posted to the appropriate interstate pipeline bulletin board. The net cost (i.e., contract cost less the highest bid received for capacity release) associated with the contract auction will be assessed as a transition surcharge to small volume customers (sales and transportation). The surcharge should be revised annually and should last no longer than five years. If the highest bid is greater than the contract cost, the LDC will credit the transition account accordingly.

Following is a summary of the requirements to be included in the bid process:

1. The LDC will select which assets will be retained for system balancing and to serve remaining supply customers of the LDC.

2. The LDC will identify capacity available for release and will post that capacity based on the applicable FERC approved pipeline tariff with any difference between the highest bid price and the contract price representing a transition cost for recovery by the LDC. Supply related contracts will be handled in a similar manner. The Board will need to review and approve the proposed quantity of these assets to be put out for auction.

3. In the event the LDC does not accept, pursuant to FERC approved pipeline tariffs, the highest bid for posted capacity, the LDC shall only be allowed to collect transition costs on such capacity equal to the difference, if any, between the contract price and the highest bid received during the capacity release.

4. All contracts released during the initial period will be released on a permanent basis to the highest bidder.

5. If there are no bids submitted for a transition asset, parties may have the opportunity to acquire any remaining capacity on less than a permanent basis.

6. For supply contracts where confidentiality waivers are acquired, the LDC will provide a confidential review and bid process to assign those contracts to the highest bidder.

To the extent the bid process yields a bid which is above the contract price or in the event the FERC approves the release of capacity above maximum tariffed rate levels, the transition cost impact could be negative. The net of transition cost for all contracts will be used to derive the transition surcharge. This transition surcharge will be subject to Board oversight and approval.

Rationale: Auctioning is the recommended option because it does not create a barrier to marketer entry because marketers are not forced to take an assignment and can go out and bargain for better prices. Additionally, any transition costs resulting from the sale of capacity and supply below actual costs will be passed through to all small volume customers (system sales and transportation customers) benefiting from competition.

28. Sharing of Capacity Release Revenue

Staff Proposal: Capacity that is assigned to marketers through this proposal should be excluded from 30/70 sharing revenue treatment. Therefore, the full contract price that the LDC recovers from marketers should be credited to the system sales PGA.

Rationale: In PGA-94-24, et al., the Board allowed utilities to retain 30 percent of revenue received for released capacity. This decision provided an incentive for the utilities to release capacity. This proposal requires full recovery of permanently released capacity. It is not appropriate for the LDC to share in that revenue. Further, the method of capacity assignment in this proposal is not intended to encourage LDCs to retain capacity for the purpose of future capacity release and revenue sharing. On an ongoing basis, the revenue sharing mechanism should continue for the capacity remaining to serve sales customers.

29. Transition Costs

a. System Costs

Staff Proposal: Any start up costs associated with system improvements not recovered elsewhere should be deferred for future rate case treatment. Any unrecovered costs associated with small volume gas can be considered at the time of the utility's next rate case.

Rationale: The rate case forum is the appropriate forum for evaluating these changes in association with more routine changes utilities make for system improvement. Also scrutiny is necessary to ensure customers are not paying for enhancements that ultimately provide a competitive advantage to the LDC's marketing affiliate.

b. Customer Education Costs

Staff Proposal: Utilities should have the opportunity to recover the actual costs incurred for Board approved customer education programs. The mechanism for recovery will depend on the amount of the expenditures that need to be recovered.

Rationale: One option for recovering customer education costs is a Board approved non-bypassable per customer surcharge assessed to all small volume customers. All customers eligible for small volume gas programs should pay the costs of Board sponsored customer education. Also this result is appropriate because all small volume customers need to be educated in order to have the necessary information to make a choice.

c. Stranded Capacity and Supply Costs

Staff Proposal: Under the capacity and supply auctioning proposal, all stranded costs are passed to all small volume customers over no longer than a five year period.

Rationale: This proposal protects the utility from any unrecovered capacity and supply costs as a result of implementing a Board ordered initiative.

d. Regulatory Assets

Staff Proposal: All regulatory asset costs should continue to be recovered from all customers under existing amortization schedules.

Rationale: Regulatory assets are capitalized costs on a utility's balance sheet which would have been expensed in the period in which they were incurred absent regulatory constraints. Examples include deferred taxes and energy efficiency. Tax issues include historic benefits such as investment tax credits and accelerated depreciation. These benefits are due to be returned to customers over the economic life of the assets and therefore are not addressed in this proposal. Customers should continue to pay a share of these costs, net of any benefits, under current payment schedules.

Implementation Issues

30. Implementation Date

Staff Proposal: The implementation date (or day of customer choice) should be less than one year after Board adoption of the intermediate approach.

Rationale: A quick implementation date is reasonable. The Board initiated a rule making specifically addressing small volume customer transportation in 1996. The one year time frame is sufficient time to address the implementation issues proposed in this plan: planning and implementing a customer education program, establishing administrative/pooling rates, certifying marketers and establishing new rules as needed. Some LDCs will claim this is insufficient time to make necessary improvements. However, a firm deadline will provide the LDCs with the inducement to prepare their systems for implementation.

31. Definition of Eligible Customer

Staff Proposal: Customers with annual consumption of less than 100,000 therms and monthly consumption of less than 25,000 therms will be eligible for small volume transportation service.

Rationale: The above definition should capture all small volume customers. MidAmerican included this definition in its small volume gas plan. Input from each of the utilities will be necessary to determine if this definition is applicable to each of their systems.

32. Reciprocity

Staff Proposal: The parties agreed that interstate reciprocity should not be required. Intrastate reciprocity is not an issue because, under this plan, all small volume customers will be able to choose a supplier on the implementation date.

Rationale: The reason there should be no interstate reciprocity requirements is to encourage as many participants in Iowa as possible. Intrastate reciprocity is only an issue if implementation is phased in. This plan includes flash cut implementation therefore there are no applicable reciprocity concerns.

33. Rate Unbundling

Staff Proposal: Rate unbundling of delivery rates is not necessary to implement this plan. Small volume customers will continue to pay current monthly customer charges.

Rationale: This plan is intended to avoid lengthy and contested rate unbundling proceedings in order to hasten the start date. Rate unbundling may be necessary in the future in order to extract specific costs (uncollectibles, billing, meter reading, etc.) from current bundled delivery rates for services that will be allowed to go to a competitive market.

34. Uncollectibles

Staff Proposal: The billing party should remain responsible for its own uncollectibles. But, if the marketer assumes responsibility for billing, the LDC will bill the marketer for delivery service and bear no responsibility for customer non-payment.

Rationale: Current utility rates include estimated costs for uncollectibles. Staff is researching the level of uncollectibles included in the most recently filed LDC annual reports. Staff expects that this amount will be minimal and therefore rates will not need to be unbundled immediately. This component of rates should be reevaluated should the utilities come before the Board for a rate proceeding.

35. Customer Education

Staff Proposal: A Board sponsored collaborative process for the development of customer education materials is recommended. The goal of this effort should be to provide customers with an unbiased message.

Rationale: Early on, the LDCs expressed an interest in working together on a joint customer education program. The NOI-98-3 workshop participants reached apparent agreement on the formation of a small subgroup of representatives of LDCs, IUB staff, Consumer Advocate, marketers, and other parties to set the direction for the customer education program.

The customer education program should be uniform, statewide, and small. Expenditures for this program should be modest because this education program is likely to be the first of two. It may be necessary to have a second customer education initiative later when end use consumers are required to choose a supplier and the LDC is no longer providing supply service. One option may be an approach comparable to the collaborative education program conducted for intraLATA dialing parity. The costs of this program, as filed by US West in Docket No. SPU-98-10, totaled $472,000 which included notification to all telephone customers, not just small volume customers. This equates to approximately $0.42 per customer. Once the scope of the small volume gas program is defined, an appropriate funding level can be established.

The objectives of educational materials for the small volume natural gas customer education program should be the same as the objectives included in HF 740. The messages contained in the materials should also be as competitively neutral as practicable. Following is the criteria for the customer education information which has been adapted from HF 740. Small volume customers shall be educated about the following:

a. The existing natural gas industry and the difference between that structure and the purchase of competitive and regulated natural gas services in a competitive market.

b. Consumers' rights and responsibilities in a competitive natural gas market.

c. The rights and responsibilities of competitive natural gas providers, aggregators, and delivery service providers.

d. The role of the Board and Consumer Advocate.

In addition to the above customer education program, parties should not be precluded from additional educational communications with customers. Any information should be communicated in an accurate and truthful manner regarding the competitive natural gas market and regulated natural gas services on an ongoing basis. This standard should be incorporated as a condition of marketer certification.

The education program should begin a set number of weeks prior to implementation of small volume gas programs.

This plan recognizes that marketers will have the freedom to begin communications with customers prior to either certification, or implementation of any small volume gas initiative. These marketing initiatives are in addition to the formal program discussed above, but will also help educate customers about their opportunities for choice.

36. Taxes

Staff Proposal: Small Volume Gas programs should not advantage any participant due to tax effects. Several specific tax categories should be considered. Implementation of small volume gas programs may or may not affect current recoveries of the specific taxes.

Income Tax. Federal and state income taxes can shift as services are provided by other firms and as profit levels vary. Competitive programs do not need to try to predict income tax shifts.

Property Tax. Replacement tax legislation in 1998 anticipated the need to revise property tax treatment to provide for stable revenue while allowing competitive changes in the industry.

Sales Tax. Sales tax legislation in 1999 provided consistent treatment for sales and transportation revenues. Gas services will be subject to sales tax regardless of the provider.

Franchise Fees. At least three cities charge franchise fees to natural gas utilities (Des Moines, Sioux City and Oskaloosa.) Staff should verify whether this is a conclusive list of affected cities and whether these fees are based on the utility's revenue. If they are, the cities should be made aware that their revenue stream is subject to change.

Rationale: Some current taxes treat utilities in particular ways. When non-utility suppliers replace utilities as service providers, two issues must be addressed. First, tax treatment should be equalized so that all competitors face similar tax burdens. Second, the interests of governmental units supported by the tax revenues should be considered. Iowa has recently revised its property tax and sales tax systems to meet these two objectives. If unforeseen problems emerge in implementing these new statutes, the Board should work with the Department of Revenue and Finance to devise appropriate solutions. Corporate income taxes are based on the level of profit earned by service providers. Competition for gas supply is not intended to change the overall level of profit. Possible revenue changes cannot be estimated. Specific provisions in federal income tax laws favoring utilities may be reconsidered by Congress if it takes up restructuring legislation. Franchise fees are assessed primarily on the distribution functions of a utility. It is acceptable to continue treating these costs as distribution costs recovered from customers within the affected cities. The possible effect of competition on franchise fee revenues requires further research.